

# VALUATION & ADVISORY SERVICES

## CBRE HOTELS – CLIENT BRIEF

### Market Performance

#### Introduction

The New Zealand Hotel investment market received significant media exposure and focus during 2010, with three notable transactions having occurred, namely the 283-room Hotel So (\$19M), 267-room Hyatt Hotel and other associated property (combined value of circa \$58-\$59M) and a portfolio of 7 hotels managed by Accor and sold to Host Hotels & Resorts Inc. The Hotel So and Hyatt sales were effectively forced sales under the instructions of a receiver; the Host transaction was an off market portfolio purchase which was untested by the wider market. Given the nature of the recent hotel sales however, the market value of hotel assets is still subject to wide market perception. However, undoubtedly these sales have caused a renewed level of interest in the hotel investment market. As demonstrated by the Hotel So and Hyatt sales campaigns, there appears to be a reasonable number of market participants seriously considering investment in the hotel market. Whilst there are no hotel properties currently offered for sale, a limited number are likely to be presented for sale during 2011, with the scarcity of stock available to the investment market likely to continue to result in premium prices being paid for quality assets.

#### Hotel Trading Metrics – All Regions

##### QUICK STATS - ALL REGIONS: Year Ending December 2010

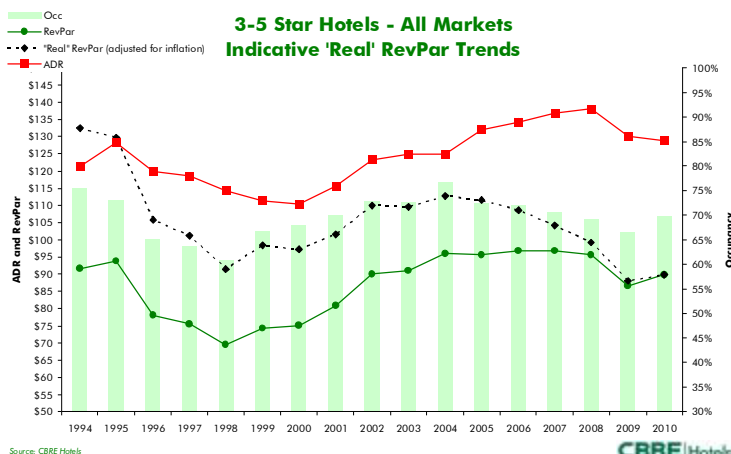
Star Rating	No. of Hotels	No. of Rooms	Avg. Rooms Revenue pa	Occupancy Rates	Average Rate	RevPar
3 Star	6	575	\$19,805	64%	\$85	\$54
3.5 Star	25	2,795	\$23,868	68%	\$96	\$65
4 Star	31	3,983	\$30,261	71%	\$117	\$83
4.5 Star	42	7,262	\$33,367	70%	\$131	\$91
5 Star	17	2,672	\$46,370	71%	\$179	\$127
<b>All Hotels</b>	<b>121</b>	<b>17,287</b>	<b>\$32,814</b>	<b>70%</b>	<b>\$129</b>	<b>\$90</b>

Source: "NZHC Statistics"

#### Market Performance Highlights

Ø RevPar in the 5 Star segment (All Regions) reported was a reported 39% above the 4 Star segment.

Ø By region, Auckland recorded the highest (5 to 4 Star) margin with 41%, Christchurch 27%, while Wellington and Queenstown 5 Star properties only achieved 8% and 9% margins, respectively, over the 4 Star segment below.



There are some significant new hotel developments progressing towards a pre-Rugby World Cup opening, namely two Hilton-managed hotels in Queenstown, Novotel Auckland Airport, Sudima Auckland Airport and Formule 1 Auckland Airport. Whilst the feasibility balance between the development cost of new hotel properties and purchase of older stock has become increasingly favourable (with improved trading, in particular higher occupancies), in most instances the cost versus value equation does not support new construction. In addition to the economic feasibility equation there are other significant barriers to entry, such as securing a prime location and development funding.

The immediate emphasis for the market is now turning towards the Rugby World Cup and maximising total revenue per occupied room and rooms profitability. The challenge for many hotel operators will be to ensure the ongoing performance (trading stability) following the Rugby World Cup. As investors are pricing in a premium for the increased levels of patronage and departmental trade during the event period, it is likely that without a replacement to these cashflows, net revenue will fall; as too will the capitalised value of these assets. However, there are a number of longer term positive stimulus present, likely to support future trading levels. These include:

Ø The outlook for a weakening NZD as cuts to the OCR become increasingly likely, offering international tourists greater purchasing power.

Ø The introduction of new flight routes, increased route frequency and airline operators which are likely to bolster Asian visitation in particular.

Ø Ancillary effects related to the Christchurch earthquake, such as redirected leisure, corporate and MICE (Meetings / Conventions) trade.

Ø Filming of 'The Hobbit' renewing international interest in New Zealand as a scenic destination.

Ø A significant price-gap between the four-five star markets which may uplift three and four star revenue performance.

Ø Auckland, Wellington and Queenstown 5 Star hotels all reported ADR within the \$160-\$170 range, while Christchurch 4.5-5 Star hotels achieved ADR of circa \$135.

Ø In the 3-3.5 Star segment, Christchurch fared better in comparison to the other main centres, although still lagged all markets with the exception of Rotorua.

#### Long Term ADR, Occupancy and RevPar Trends

Our review of the long term trends in average room rate and occupancy across all of the major hotel markets is displayed in the graph opposite. We note the following points of interest:

Ø Between 1994 and 2010 average room rates (ADR) have increased only marginally (with an annual average growth rate of 0.4%).

Ø Over the same 16-year period occupancy has averaged circa 70%.

Ø Revenue per available room (RevPar) has cycled, although is roughly at the same level as it was in 1994.

Ø In 'real' terms, taking into account the effects of inflation, RevPar was some 47% higher in 1994 than today.

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### Supply Pipeline & Market Outlook

#### Hotel/ Serviced Apartment Room Supply

Our market research has identified the following new hotel and serviced apartment supply:

#### 3-5 Star Hotel/ Serviced Apartment Room Supply Analysis

Project Name/ Location	Est. Date Completion	Star Rating	Type	Rooms/ Keys	% Increase
<b>RECENTLY COMPLETED</b>					
<b>Auckland</b>					
Celestion Waldorf Apts Hotel	May-10	4.0	Strata Hotel	123	
Rydges Hotel - expansion	Mar-10	4.0	Hotel	76	
<b>Christchurch</b>					
The Marquee Hotel Christchurch	Mar-10	4.5	Strata Hotel	171	
Novotel Christchurch Cathedral Square	Jan-10	4.0	Hotel	193	
					9.6%
<b>UNDER CONSTRUCTION</b>					
<b>Auckland</b>					
Novotel Auckland Airport Hotel	Jun-11	4.0	Hotel	263	
Sudima Airport Hotel	Jun-11	3.5	Hotel	152	
Hotel Formula 1 Auckland Airport	Jul-11	2.5	Hotel	120	
Quest Albany	Sep-12	4.0	Strata Hotel	38	
Quest on Hobson	Sep-12	4.0	Strata Hotel	42	
					9.5%
<b>Wellington</b>					
Quest Petone	Mar-12	4.0	Strata Hotel	42	
					1.4%
<b>Queenstown</b>					
Kawarau Hotel, Managed by Hilton	Sep-11	3.5	Strata Hotel	98	
Hilton Queenstown	Jun-11	5.0	Strata Hotel	178	
					11.2%
<b>Dunedin</b>					
Distinction Hotel Dunedin	Nov-11	4.0	Hotel	180	
					26.2%

#### Market Overview & Outlook

##### Auckland:

Ø There are three traditional hotels currently under construction and scheduled to open by mid-2011 in time for the Rugby World Cup (RWC). In addition, two boutique “Quest” hotels opening. Notably, only 42 rooms will be added to the CBD.

Ø 2010 saw an uplift in occupancy (to 74% from 69%), however ADR has fallen \$1.50.

##### Rotorua:

Ø No new short term room supply additions.

Ø 2010 saw a sharp rise in occupancy (to 66% from 61% in 2009) and ADR only marginally down.

Ø Outlook is for improving trading with greater numbers of international visitors arriving from China, Japan and South Korea, in particular.

##### Christchurch:

Ø The Hotel Grand Chancellor Christchurch, comprising 176 rooms, is unlikely to re-open due to severe structural damage resulting from the February 2011 Christchurch earthquake.

Ø The timeline for access to the CBD is uncertain, including when some semblance of ‘normality’ will return.

Ø No new short term room supply additions.

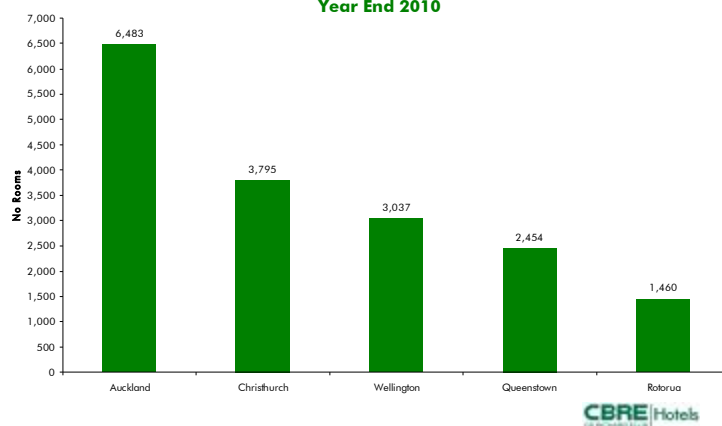
Ø 2010 saw occupancy unchanged (at circa 67%) from 2009, however ADR is down approximately \$2.00.

#### Room Stock

Ø Auckland by a large margin, holds the largest stock of rooms, with a market share of 38% of the total room supply (of all of the main centres).

Ø We note that approximately a quarter of the Wellington room stock is independently operated. This compares with significantly lower representation of independently operated hotels in other main centres.

3-5 Star Hotels - Indicative Room Stock  
Year End 2010



##### Wellington:

Ø No new near term room supply.

Ø 2010 saw occupancy unchanged (at circa 69%) from 2009 and ADR down over \$3.00.

##### Queenstown:

Ø Two hotels currently under construction (at Kawarau Falls) scheduled to open by mid-2011.

Ø 2010 saw a sharp rise in occupancy (to 69% from 63% in 2009) and marginal increase in ADR.

#### Outlook Summary

Ø Whilst economic conditions, including hotel market conditions, have been challenging over the past 2 years, there have been some signs of stabilisation with slightly more positive market influences emerging in 2010.

Ø However there remain many challenges and substantial downside risks, particularly to the nature of economic recovery in key markets, exchange rates and always the potential of “shock events” (such as the Christchurch earthquakes and airline disruption caused by the volcano eruption in Norway). The re-bounce in international visitors experienced last year has shown that the tourism sector is resilient, although there was a sharp downturn in spending by international visitors, with tourists spending 10% less in 2010.

Ø The recovery from the recession will likely be a slow process rather than a rapid rebound, and so too will the recovery in the hotel markets.

Ø 2011 outlook is for increasing occupancy and ADR given the boost expected by RWC; however a fall back to ‘normalised’ trading levels in 2012, with a ‘soft’ economic outlook in the near to medium term.

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### 3-5 Star Hotel/ Serviced Apartment Operators

#### Operator Survey Highlights

The results of CBRE Hotels research of NZ Hotel /Serviced Apartment Operators have revealed significant changes since our previous study. Our key findings may be summarised as follows:

Ø Accor (with brands represented being Sofitel, Pullman, Grand Mercure, Novotel, Mercure, All Seasons, Ibis, Formule 1) is New Zealand's largest hotel operator with 4,113 rooms under management (including franchise) across 29 properties. Rooms under Accor management have grown by 86% since year end 2005.

Ø Millennium Hotels & Resorts also (coincidentally) have 29 properties and Quest Serviced Apartments have 27 properties under management. Both however have fewer rooms than Accor with 3,474 and 1,138, respectively.

Ø Quest and Scenic Hotel Group have also recorded impressive growth in room stock with increases of 56% and 30%, in the past 5 years.

#### New Operators/ Brands

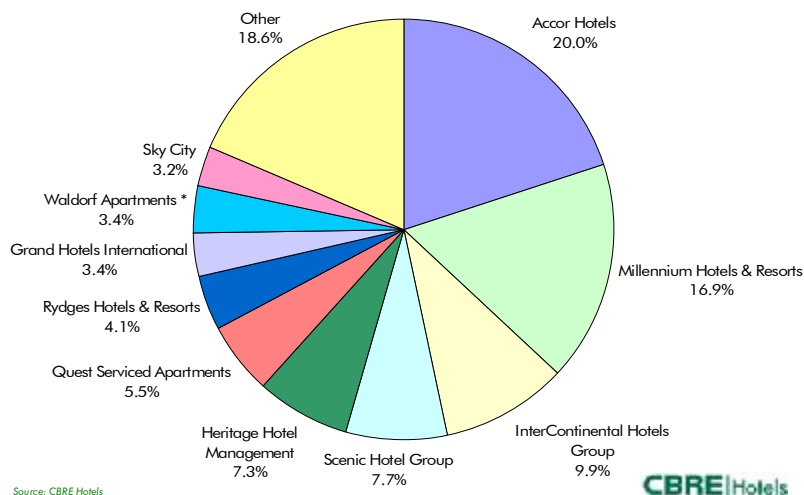
There has been a number of new hotel and serviced apartment operator entrants (and departures), some of which include:

- Ø Toga Hospitality (Travelodge)
- Ø Rendezvous Hospitality Group (Rendezvous, The Marque Hotels)
- Ø Distinction Hotel Group
- Ø Tanoa Hotels
- Ø Amora Hotels & Resorts (formerly Duxton)
- Ø Waldorf Apartments
- Ø Constellation Hotels (Chifley Hotel, Country Comfort)

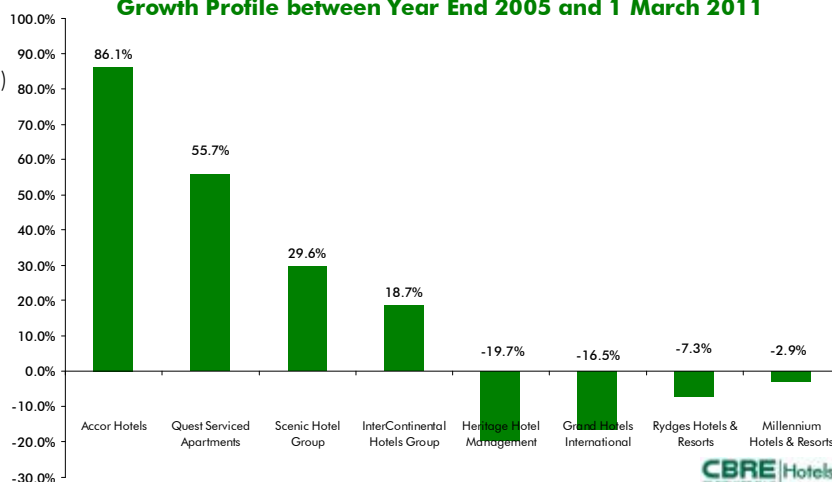
#### Departing Operators/ Brands

- Ø Carlton
- Ø Hyatt
- Ø Outrigger Hotels & Resorts
- Ø Duxton
- Ø Ascot Hotel Group

#### 3-5 Star Hotel Operators - Top 10 Rooms Under Management - as at 1 March 2011



#### 3-5 Star Hotel Operators Growth Profile between Year End 2005 and 1 March 2011



	NZ Hotel Operators *	Rooms	% of Mkt	Properties	NZ Brands
1	Accor Hotels	4,113	20.3%	29	Sofitel, Pullman, Grand Mercure, Novotel, Mercure, All Seasons, Ibis, Formule 1
2	Millennium Hotels & Resorts	3,474	17.1%	29	Millennium, Copthorne, Quality
3	InterContinental Hotels Group	2,036	10.0%	9	InterContinental, Crowne Plaza, Holiday Inn
4	Scenic Hotel Group	1,588	7.8%	17	Heartland Hotels, Scenic Hotels & Suites
5	Heritage Hotel Management	1,203	5.9%	11	Heritage, CityLife
6	Quest Serviced Apartments	1,138	5.6%	27	Quest
7	Rydges Hotels & Resorts	854	4.2%	4	Rydges
8	Grand Hotels International	707	3.5%	4	Hotel Grand Chancellor
9	Waldorf Apartments *	700	3.4%	7	Waldorf
10	Sky City	660	3.3%	2	Sky City

\* Estimate

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## CBRE HOTELS – CLIENT BRIEF

### Our Services & New Zealand People

#### Professional Staff

We are a specialist hotel and leisure valuation unit within New Zealand, forming part of a wider valuations team of approximately 40 professional staff throughout the country. We are recognised by all major banking institutions and are approved 'panel' valuers for ANZ National Bank and Bank of New Zealand. Furthermore, all staff actively participate in continued professional development in hotel and leisure markets, to ensure that we understand not only the 'reality' of accommodation investments but also the operational aspects of the market.

Our staff have a sound understanding of hotel operations and complex transactions, and of economic, political, seasonal, geographic, and tourism factors. Furthermore, our depth of professional talent allows CB Richard Ellis Hotels to not only undertake larger portfolio assignments and complete these within responsive timeframes, but also for staff to specialise in associated sub-markets.



**Stephen Doyle** Registered Valuer, ANZIV, MPINZ

Stephen is a Director of CBRE Valuation & Advisory with extensive specialist knowledge in the South Pacific accommodation market as well as a depth of experience in the NZ hotel market. Stephen is an Associate of the New Zealand Institute of Valuers and is an approved Panel Valuer with all key financial institutions. Stephen's transition to CBRE Hotels follows a 9 year period in which he has valued a broad range of assets, including those of a more specialist cashflow-focused nature such as childcare centres, self storage facilities and hotels/motels.

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**Shaun Jackson** Registered Valuer, ANZIV, SPINZ

Shaun is an Associate Director located in the North Auckland Office. Shaun began specialising in the valuation of Hotels and Leisure properties at Arthur Andersen LLP, in Washington, D.C. under the guidance of National Director of Valuation, Frederick Bunch, Jr., MAI. Following his return to New Zealand in 1999, Shaun joined CB Richard Ellis and has since continued his interest in the field of hotels & leisure to gain a wide range of experience with in particular 3-5 star hotels, motels, backpacker hostels and student accommodation.

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**Chris Barraclough** Registered Valuer, FNZIV, FPNZ

Chris is a Director of the Christchurch Office. He has considerable valuation and consultancy expertise in relation to specialised going concern properties including motels, hotels, taverns, lodges, public and private hospitals and retirement villages. He is also active in general commercial and industrial valuation and consultancy and he is an expert arbitrator and umpire. Chris is a fellow of the New Zealand Property Institute with 30 years experience in property valuation and consultancy. He joined CB Richard Ellis in June 2005.

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#### Why Engage CB Richard Ellis?

- Ø We specialise in the valuation of hotel and going concern type assets and our valuers do not prejudice our independence through agency appointments.
  - Ø We have considerable hotel specific information resources such as revenue / expense benchmarking information over an extended time series.
  - Ø Our advice is accepted by (and commonly demanded by) the major trading banks in New Zealand and Australia as well as second tier banks.
  - Ø We provide a national service with market knowledge throughout New Zealand, as well as the South Pacific.
- #### Our Services
- Ø Valuations for acquisition, sale, financial reporting and mortgage purposes.
  - Ø Pre-purchase due diligence.
  - Ø Demand studies / Feasibility studies.
  - Ø Cashflow forecasting and reviews of client forecasts.

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